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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001119

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TAGS: [ENRG](#) [KNNP](#) [KTIA](#) [TU](#)
SUBJECT: FRANK MERMOUD DISCUSSES NUCLEAR POWER AND
PRIVATIZATION IN TURKEY

REF: A. ANKARA 1028
[1](#)B. ANKARA 401

Classified By: Acting Economic Counselor Rebecca Neff for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary. The Secretary's Special Representative for Commercial and Business Affairs Frank Mermoud discussed Turkey's vision for civilian nuclear power development with Ministry of Energy Acting Under Secretary Cimen and Turkish Atomic Energy Agency (TAEK) Chairman Cakiroglu on June 12. Mermoud told Cimen and Cakiroglu that U.S. investors including General Electric (GE) were interested in bidding on Turkey's tender to build the first nuclear power plant. Both welcomed U.S. investor interest and mentioned they planned to meet with GE representatives that same day. With the entry into force of the Agreement on the Peaceful Uses of Nuclear Energy on June 2, Mermoud suggested that TAEK open discussions with Washington on the replacement of highly enriched uranium (HEU) for low enriched uranium (LEU) for a nuclear research reactor in Istanbul. Cakiroglu agreed but added he had some concerns about how the fuel swap would work. Mermoud urged Turkey to become a full member of GNEP. Cakiroglu responded that GNEP would require Turkey to make some concessions it was not ready to make at this point. Mermoud also met with Privatization Administration President Metin Kilci to discuss the status of on-going privatizations in Turkey. End summary.

[1](#)2. (SBU) In a meeting with Energy Acting Under Secretary Selahattin Cimen, Mermoud said the entry into force of the Agreement on Peaceful Uses of Nuclear Energy, also known as the 123 Agreement (ref a) was an important achievement because it opened the door for U.S. companies' participation in Turkey's tender to build the first nuclear power plant. Mermoud said several U.S. companies were interested in the tender and GE would form a consortium with Turkish firm Sabanci and Spanish firm Iberadola to make a bid. Cimen replied that U.S. investors are welcome in Turkey and that he would meet with GE later that day to discuss their bid.

[1](#)3. (SBU) Mermoud said U.S. investors had expressed some concerns about the technical specifications of the tender including tariff methodology, requirement for 60% local content and fuel processing in Turkey. Cimen said some companies misunderstood the original criteria set by the Turkish Nuclear Energy Agency (TAEK) and that he is working directly with investors to set the record straight. Cimen explained that 60% local content is a goal to be reached over time, not a condition to be met from the outset. Cimen emphasized that Turkey is not seeking nuclear enrichment capability but rather fuel fabrication. Cimen assessed that

fabrication could be achieved with an investment of only a few USD million. (Note: In separate meetings, GE representatives told us the Ministry of Energy's estimates for fuel fabrication are unrealistic. GE remains concerned that the cost of establishing a fuel fabrication facility in Turkey will push up the overall cost of their bid and damage their competitiveness. By contrast, fuel fabrication for nuclear plants that use natural uranium, such as Canadian rival Cando, is cheaper. End note.)

¶4. (C) In a meeting with Turkish Atomic Energy Agency (TAEK) Chairman Okay Cakiroglu, Mermoud again welcomed the entry into force of the 123 Agreement and told Cakiroglu of GE's interest in bidding on Turkey's tender to develop nuclear power. Cakiroglu said he knew of GE's plans because he had met with their representatives earlier in the day. Turning to another subject, Mermoud asked Cakiroglu for his support for swapping highly enriched uranium (HEU) with low enriched uranium (LEU) at TAEK's Cekmece research facility in Istanbul. Cakiroglu said, in principle, he was ready to make the swap but added he had several concerns. First, TAEK would like to minimize the amount of time the reactor is off-line for fuel changes. Second, Cakiroglu said TAEK had been through a similar process in the past and felt the compensation was inadequate. Cakiroglu said he had "turned in" HEU fuel to the U.S. about four years ago and was given "credits" for future fuel installments which he doesn't know how to redeem. (Note: Previously, Cakiroglu had also mentioned that the U.S. "owed" him for fuel that had been repatriated. See ref b). He stressed that the HEU is GOT property and must be appropriately accounted for with a

ANKARA 00001119 002 OF 002

dollar value which Turkey would "be paid" after turning in the fuel. Mermoud explained the nature of the fuel swap arrangement and suggested a team from Washington visit TAEK to negotiate a detailed arrangements for the fuel swap. Cakiroglu agreed then added, the team should be composed of "decision-makers" who have the authority to sign a contract with TAEK.

¶5. (C) Turning to the Global Nuclear Energy Partnership (GNEP), Mermoud invited Turkey to become a full member. Cakiroglu repeated previous concerns that GNEP is duplicative of the work of IAEA. Cakiroglu then said that Turkey's current tender for nuclear power was only the beginning and he predicted Turkey's nuclear power capacity would reach 30,000 MW in a decade or two. For that reason, Turkey does not want to give up the right to enrich uranium for nuclear fuel as would be required by signing GNEP, he alleged. He stressed that Turkey was not pursuing enrichment at this time but didn't want to forego the opportunity if it made economic sense at a later date. Cakiroglu repeated several times that Turkey would use enrichment technology for peaceful purposes only. He added that Turkey is a member of NATO and a good ally of the U.S. and does not have anything to hid from the U.S., IAEA or others.

¶6. (SBU) Mermoud mentioned the U.S.-Turkey Economic Partnership Commission (EPC) and said cooperation between the two countries on civilian nuclear power development should take place under EPC auspices. Mermoud extended an invitation to Cakiroglu to visit the U.S. Cakiroglu said he is still interested in an exchange of scientists between TAEK and DOE's national laboratories. He added that energy was a prime area for U.S.-Turkey cooperation, in particular he noted interest in collaboration with the Nuclear Regulatory Commission and DOE on alternative energy resources such as solar, wind and clean coal technologies.

¶7. (SBU) Mermoud met with Privatization Administration President Metin Kilci to discuss upcoming privatizations and foreign interest in Turkish projects. Kilci reported that privatization revenues for 2008 will top the \$2.9 billion earned in 2007. Already in 2008 more than \$4 billion has been earned from completed deals on Turk Telecom, Petkim, and

Tekel. Projects still on tap for privatization in 2008 include electricity distribution, toll roads, and the national lottery. The latter two deals will require a technical parliamentary fix, which Kilci does not see as problematic.

¶8. (SBU) Mermoud asked about bids from international investors on open projects. Kilci was disappointed to note that only one of 10 big pre-qualified EU investors is actively bidding on electricity distribution. Mermoud asked about international promotion of Turkish privatizations, and Kilci said he and his staff sometimes participate in GOT roadshows to promote interest. Since the offerings are highly technical, they generally require intensive discussions with potential bidders. Mermoud agreed to discuss possible synergies for the PA with the head of the Turkish Investment Promotion and Support Agency in a separate meeting.

¶9. (C) Comment: Cakiroglu's claim that the U.S. "owes" TAEK for fuel that was repatriated four years ago is likely to continue to be a sticking point for negotiations on the HEU-LEU fuel swap. It would be useful, in advance of these negotiations, to verify whether documentation of this transaction exists. Post will also continue to work with TAEK to gather more specific details on the alleged transaction.

¶10. (U) Frank Mermoud cleared this cable.

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